

**REPORT OF THE AUDIT OF THE
FORMER ROCKCASTLE COUNTY
SHERIFF**

**For The Period January 1, 2002
Through January 5, 2003**



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CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Shirley Smith, Former Rockcastle County Sheriff
Honorable Darrell Doan, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the former Sheriff of Rockcastle County, Kentucky, for the period January 1, 2002 through January 5, 2003.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the former Rockcastle County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
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SHERIFF**

**For The Period January 1, 2002
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**ROSS & COMPANY, PLLC
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER ROCKCASTLE COUNTY SHERIFF

**For The Period January 1, 2002
Through January 5, 2003**

Ross and Company, PLLC, has completed the former Rockcastle County Sheriff's audit for the period January 1, 2002 through January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$17,268 from the prior calendar year, resulting in excess fees of \$18,100 as of January 5, 2003. Revenues increased by \$45,842 from the prior year and disbursements increased by \$28,574.

Report Comments:

- The Former Sheriff Should Have Closed His Fee Account By Collecting All Receivables And Paying All Liabilities Owed
- The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Former Sheriff Should Have Withheld Retirement From The Kentucky Law Enforcement Foundation Program Fund Proceeds Paid To Deputies
- The Former Sheriff Should Have Maintained Accurate Records and Good Bookkeeping Practices
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were not properly insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES.....	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Sheriff of Rockcastle County, Kentucky, for the period January 1, 2002 through January 5, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the period January 1, 2002 through January 5, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued a report dated November 18, 2003, on our consideration of the former County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
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Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Former Sheriff Should Have Closed His Fee Account By Collecting All Receivables And Paying All Liabilities Owed
- The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Former Sheriff Should Have Withheld Retirement From The Kentucky Law Enforcement Foundation Program Fund Proceeds Paid To Deputies
- The Former Sheriff Should Have Maintained Accurate Records and Good Bookkeeping Practices
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross and Company", written in black ink.

Ross and Company, PLLC

Audit fieldwork completed -
November 18, 2003

ROCKCASTLE COUNTY
SHIRLEY SMITH, FORMER COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period January 1, 2002 Through January 5, 2003

State - Kentucky Law Enforcement Foundation Program Fund	\$	10,946
State Fees For Services:		
Finance and Administration Cabinet		4,643
Circuit Court Clerk:		
Sheriff Security Service	\$ 19,359	
Fines and Fees Collected	<u>3,218</u>	22,577
Fiscal Court		15,661
County Clerk - Delinquent Taxes		1,734
Commission On Taxes Collected		91,426
Fees Collected For Services:		
Auto Inspections	\$ 5,030	
Accident and Police Reports	275	
Serving Papers	9,620	
Carrying Concealed Deadly Weapon Permits	<u>4,690</u>	19,615
Other:		
Transporting Prisoners	\$ 2,576	
Miscellaneous	5,939	
Pepsi Commissions	357	
Add-on Fee	22,871	
Transfer from Drug Forfeiture Account	14,500	
Refund	<u>701</u>	46,944
Interest Earned		<u>1,237</u>
Total Receipts	\$	<u>214,783</u>

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
 SHIRLEY SMITH, FORMER COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Period January 1, 2002 Through January 5, 2003
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	102,191
Employee Benefits		
Employer' Social Security		11,940
Contracted Services-		
Vehicle Maintenance and Repairs		1,124
Materials and Supplies-		
Office Materials and Supplies	\$	1,766
Uniforms		<u>600</u>
		2,366
Auto Expense-		
Gasoline		12,674
Other Charges-		
Carrying Concealed Deadly Weapon Permits	\$	2,875
Miscellaneous		<u>1,254</u>
		4,129
Total Disbursements	\$	<u>134,424</u>
Net Receipts	\$	80,359
Less: Statutory Maximum		<u>62,259</u>
Excess Fees Due County for Calendar Year 2002	\$	<u><u>18,100</u></u>

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at January 5, 2003.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
January 5, 2003
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits:

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 5, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$240,711 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of November 5, 2003.

	<u>Bank Balance</u>
FDIC insurance	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,030,640
Uncollateralized and uninsured	<u>240,711</u>
Total	<u>\$ 1,371,351</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
January 5, 2003
(Continued)

Note 4. Equipment Fund

The former Sheriff received in April 2001, a grant that was passed through the Rockcastle County Fiscal Court for equipment purchases. The grant was for \$4,500. Beginning balance January 1, 2002 was \$4,152. Receipts for calendar year 2002 were \$26, which was for interest. Expenditures were \$4,139. The balance as of January 5, 2003 was \$39.

Note 5. Drug Forfeiture Account

During 2001, the former Sheriff's office received proceeds emanated from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These proceeds may be used for operating expenditures of the Sheriff's office. The beginning balance as of January 1, 2002 was \$15,650. During 2002, receipts were \$2,059. Disbursements from the account during 2002 were \$17,709. The balance in the account as of December 31, 2001 was \$0.

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COMMENTS AND RECOMMENDATIONS

FORMER ROCKCASTLE COUNTY
SHIRLEY SMITH, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2002 Through January 5, 2003

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Closed His Fee Account By Collecting All Receivables And Paying All Liabilities Owed

The proper payment of excess fees requires the collection of receivables and the payment of these funds to the Rockcastle County Fiscal Court as excess fees for calendar year 2002.

Money Due From Others:	
2002 Tax Account	<u>\$9,379</u>
Money Due To Others:	
Rockcastle County Fiscal Court	<u>\$18,100</u>

The above collections and distributions, along with the available fee bank account of \$8,721, will be sufficient to close the former Sheriff's fee account for the period of January 1, 2002 through January 5, 2003. We recommend the former Sheriff collect the above \$9,379 of receivables and, combined with the available cash of \$8,721, pay the listed \$18,100 of excess fees.

Former Sheriff Shirley Smith's Response:

None.

The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On November 5, 2002, \$240,711 of the former Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. The former Sheriff should have required the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Former Sheriff Shirley Smith's Response:

None.

The Former Sheriff Should Have Withheld Retirement From Kentucky Law Enforcement Foundation Program Funds Disbursed To The Deputies

During our audit, we noted that retirement was not being withheld from Kentucky Law Enforcement Foundation Program Funds distributed to the deputies. KRS 78.610 requires retirement to be withheld from all compensation unless the deputy is eligible to opt out of the system.

Former Sheriff Shirley Smith's Response:

None.

ROCKCASTLE COUNTY
SHIRLEY SMITH, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 1, 2002 Through January 5, 2003
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The Former Sheriff Should Have Maintained Accurate Records And Good Bookkeeping Practices

The former Sheriff's financial records were not accurate in that numerous adjustments were made. The former Sheriff should have maintained accurate records. We found instances where checkout sheets were not maintained and receipts were not issued. Technical Audit Bulletin #93-002, Section 4, requires the Sheriff to prepare checkout sheets daily, and reconcile checkout sheets with daily deposit totals. Receipts should be recorded to a ledger and deposited within three working days. We recommend that these practices be followed in the future.

Former Sheriff Shirley Smith's Response:

None.

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. This comment was also included in the prior year exit conference.

Former Sheriff Shirley Smith's Response:

None.

PRIOR YEAR:

- The Sheriff Should Withhold Retirement From The Kentucky Law Enforcement Foundation Program Fund Proceeds Paid To Deputies - This was not corrected and is repeated in this report.
- The Sheriff Should Present An Annual Settlement To The County - This was corrected.
- Lacks Adequate Segregation Of Duties - This was not corrected and is repeated in this report.
- The Sheriff Should Not Have A Deficit At Year End - This was corrected.
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits - This was not corrected and is repeated in this report.
- The Sheriff Should Maintain Accurate Records And Good Bookkeeping Practices - This was not corrected and is repeated in this report.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the former Rockcastle County Sheriff for the period January 1, 2002 through January 5, 2003, and have issued our report thereon dated November 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Rockcastle County Sheriff's financial statement for the period January 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Closed His Fee Account By Collecting All Receivables And Paying All Liabilities Owed
- The Former Sheriff Should Have Withheld Retirement From The Kentucky Law Enforcement Foundation Program Fund Proceeds Paid To Deputies
- The Former Sheriff Should Have Required Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Rockcastle County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Maintained Accurate Records And Good Bookkeeping Practices
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Ross and Company, PLLC

Audit fieldwork completed -
November 18, 2003

